

Management's Discussion of Recent Financial Performance – Lifespan Obligated Group

Quarter Ended September 30, 2019 compared to Quarter Ended September 30, 2018.

The Lifespan Obligated Group (the OG) is comprised of Rhode Island Hospital (RIH), The Miriam Hospital (TMH), and Emma Pendleton Bradley Hospital (EPBH), as well as Rhode Island Hospital Foundation and The Miriam Hospital Foundation (the Foundations).

Excess of revenues over expenses was \$7.0 million for the quarter ended September 30, 2019 compared to a deficiency of revenues over expenses of \$1.4 million for the quarter ended September 30, 2018.

Results of Operations. For the quarter ended September 30, 2019, the OG reflected income from operations of \$2.5 million compared to operating income of \$1.8 million for the quarter ended September 30, 2018.

Net patient service revenue increased by \$24.2 million (5.4%) in the quarter ended September 30, 2019 compared to the same period in 2018. A 3.3% increase in adjusted patient days contributed \$13.3 million to net patient service revenue. Rate increases and changes in payor mix resulted in a net increase of \$15.7 million, including a \$6.4 million reduction from lower Medicare rates caused by an adverse change in the formula for the wage index calculation. Total uncompensated care increased by \$4.2 million, but State disproportionate share revenue was higher by \$2.3 million. Prior period third-party adjustments were \$2.9 million lower in the quarter ended September 30, 2019.

Charity care increased by \$1.5 million and the provision for bad debts was higher by \$2.7 million in the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018. Charity care amounted to \$24.9 million and \$23.4 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of the OG's gross patient service revenue, total uncompensated care, which includes the provision for bad debts as well as charity care, was 3.2% and 3.1% in the quarters ended September 30, 2019 and 2018, respectively.

Other revenue increased by \$3.3 million (19.5%) in the quarter ended September 30, 2019 due primarily to revenue from the Lifespan Retail Pharmacy, which grew by \$4.2 million, partially offset by joint venture activity, which was \$1.4 million lower in the 2019 quarter compared to the same period in 2018.

Total operating expenses increased by \$28.0 million (5.7%) in the quarter ended September 30, 2019 compared to the same period in 2018, due primarily to supplies and other expenses, which increased by \$19.1 million (16.1%), and compensation and benefits, which were higher by \$7.8 million (3.1%).

Supplies and other expenses increased by \$19.1 million in the quarter ended September 30, 2019 contrasted with the same period in 2018, most notably within medical/surgical supplies and drugs at RIH (\$16.4 million) caused by a combination of general inflation, an increase in inpatient volume, and the continued growth of both the Lifespan Retail Pharmacy and the Lifespan Cancer Institute (the LCI).

Compensation and benefits increased by \$7.8 million in the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018. 241 additional full-time

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Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

equivalents (FTEs) resulted in an increase of \$5.4 million in compensation and benefits. FTEs increased by 211 at RIH and by 21 at EPBH. The increase in FTEs at RIH occurred because of higher staffing levels in nursing, the emergency department, diagnostic imaging, the LCI, interns and residents, and support services. FTE growth at EPBH was the consequence of higher staffing levels in the inpatient units, the residential homes, and the Center for Autism and Developmental Disabilities.

Compensation also grew due to the fiscal year 2019 salary program, which included a 3.0% average pay increase for nonunion employees effective October 1, 2018. This factor, along with all other changes in compensation and benefits, resulted in a net increase of \$2.4 million in the quarter ended September 30, 2019 compared to the same period in 2018.

Purchased services decreased by \$0.7 million (0.9%) in the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018. The 2018 quarter included \$7.7 million for alternative staffing during the four-day strike at RIH. This was partially offset by increases in support services purchased from Lifespan (\$3.6 million), new outsourced dietary service programs (\$1.5 million), and malpractice insurance costs (\$1.1 million).

License fees increased by \$1.6 million (7.2%) in the quarter ended September 30, 2019 compared to the same period in 2018, which was more than offset by the previously noted increase in State disproportionate share revenue of \$2.3 million.

Nonoperating gains amounted to \$4.5 million for the quarter ended September 30, 2019 compared to nonoperating losses of \$3.2 million for the same period in 2018. Effective September 30, 2019, the Board of Trustees of Lifespan Diversified Services, Inc. approved the assignment of its ownership interest in VNA Technicare, Inc., d/b/a Lifespan Home Medical (LHM) to TMH. As of September 30, 2019, Lifespan Corporation (Lifespan) approved the contribution to TMH of \$9.5 million of Lifespan's intercompany receivables due from LHM, included in the OG's other nonoperating gains. As of September 30, 2019, TMH, acting in its capacity as LHM's sole corporate member, approved forgiveness of its intercompany receivables due from LHM, which is reflected as an equity contribution by TMH to LHM totaling \$9.5 million.

Partially offsetting the above-noted nonoperating gain, net realized losses on unrestricted investments amounted to \$1.1 million in the 2019 quarter compared to net realized gains of \$0.7 million in the 2018 quarter.

Year Ended September 30, 2019 compared to Year Ended September 30, 2018.

Deficiency of revenues over expenses was \$21.0 million for the year ended September 30, 2019 compared to excess of revenues over expenses of \$21.1 million for the year ended September 30, 2018.

Results of Operations. For the year ended September 30, 2019, the OG reflected a loss from operations of \$16.5 million compared to operating income of \$33.8 million for the year ended September 30, 2018.

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Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

Net patient service revenue increased by \$49.9 million (2.8%) in the year ended September 30, 2019 compared to the same period in 2018. A 4.2% increase in adjusted patient days contributed \$67.3 million to net patient service revenue, but changes in payor mix, partially offset by rate increases, resulted in a net decrease of \$5.3 million, including \$23.9 million from lower Medicare rates caused by an adverse change in the formula for the wage index calculation. Total uncompensated care increased by \$15.5 million, but State disproportionate share revenue was higher by \$10.4 million. Prior period third-party adjustments were \$7.0 million lower in the year ended September 30, 2019.

Charity care increased by \$6.6 million and the provision for bad debts was higher by \$8.9 million in the year ended September 30, 2019 compared to the same period in 2018. Charity care amounted to \$90.4 million and \$83.8 million for the years ended September 30, 2019 and 2018, respectively. As a percentage of the OG's gross patient service revenue, total uncompensated care, which includes the provision for bad debts as well as charity care, was 2.8% and 2.7% in the years ended September 30, 2019 and 2018, respectively.

Other revenue increased by \$14.4 million (24.7%) in the year ended September 30, 2019 compared to the same period in 2018 due to the continued growth in the Lifespan Retail Pharmacy of \$18.8 million, partially offset by joint venture activity, which was \$5.0 million lower.

Total operating expenses increased by \$120.8 million (6.3%) in the year ended September 30, 2019 compared to the same period in 2018, due primarily to supplies and other expenses, which increased by \$54.8 million (11.6%), compensation and benefits, which were higher by \$34.8 million (3.4%), and purchased services, which grew by \$23.2 million (8.8%).

Supplies and other expenses increased by \$54.8 million in the year ended September 30, 2019 contrasted with the same period in 2018, most notably within medical/surgical supplies and drugs at RIH (\$46.1 million) and TMH (\$6.8 million), caused by a combination of general inflation, an increase in inpatient volume, and the continued growth of both the Lifespan Retail Pharmacy and the LCI.

Compensation and benefits increased by \$34.8 million in the year ended September 30, 2019 compared to the year ended September 30, 2018. 210 additional full-time equivalents (FTEs) resulted in an increase of \$19.2 million in compensation and benefits. FTEs increased by 160 at RIH and by 45 at TMH. The increase in FTEs at RIH occurred because of higher staffing levels in nursing, the emergency department, pharmacy, interns and residents, the LCI, and support services. FTE growth at TMH was the consequence of higher staffing levels in nursing, the emergency department, diagnostic imaging, and laboratory outreach.

Compensation also grew due to the fiscal year 2019 salary program, which included a 3.0% average pay increase for nonunion employees effective October 1, 2018. This factor, along with high levels of premium pay and all other changes in compensation and benefits, resulted in a net increase of \$15.6 million in the year ended September 30, 2019 compared to the same period in 2018.

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Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

Purchased services increased by \$23.2 million in the year ended September 30, 2019 compared to the year ended September 30, 2018 due mainly to increases in support services purchased from Lifespan (\$13.9 million), new outsourced dietary service programs (\$7.8 million), and malpractice insurance costs (\$2.4 million).

License fees increased by \$6.5 million (7.2%) in the year ended September 30, 2019 compared to the same period in 2018, which was more than offset by the previously noted increase in State disproportionate share revenue of \$10.4 million.

Nonoperating losses amounted to \$4.5 million for the year ended September 30, 2019 compared to nonoperating losses of \$12.7 million for the same period in 2018. As noted in the discussion of quarterly results above, TMH recognized a nonoperating gain of \$9.5 million, a reflection of assuming 100% ownership interest in intercompany receivables due from LHM. Net realized gains on unrestricted investments were \$1.8 million less in the year ended September 30, 2019 compared to the year ended September 30, 2018.

The Master Trust Indenture requires that the OG's Debt Service Coverage Ratio (DSCR) calculated for each fiscal year be 1.10x or higher. The DSCR is 2.07x for the year ended September 30, 2019 compared to 3.32x for the year ended September 30, 2018.

Changes in Net Assets. Total net assets of the OG decreased by \$90.6 million in the year ended September 30, 2019 compared to an increase of \$92.1 million for the year ended September 30, 2018.

The decline in operating performance resulted in a decrease in net assets of \$50.3 million. The above-noted contribution of \$9.5 million increased net assets by the same amount.

Net realized and unrealized losses in the year ended September 30, 2019 totaled \$3.1 million, compared with net realized and unrealized gains of \$24.1 million for the year ended September 30, 2018, a decrease in investment performance of \$27.2 million. The investment portfolio returned a gain of 2.9% in the year ended September 30, 2019 compared to a gain of 5.7% in the year ended September 30, 2018.

In addition to the equity contribution by TMH to LHM totaling \$9.5 million, as of September 30, 2019, Lifespan approved forgiveness of the repayment of certain of its intercompany and notes receivable due from Gateway Healthcare, Inc. amounting to \$29.3, with equity contributions to Lifespan by RIH and EPBH totaling \$16.3 million and \$13.0 million respectively. Additionally, Lifespan approved forgiveness of the repayment of certain intercompany receivables due from RIH and EPBH totaling \$7.7 million and \$12.3 million, respectively, which are reflected as equity contributions by Lifespan to those hospitals.

Changes in net assets in the year ended September 30, 2019 include a decrease in unrestricted net assets of \$52.6 million based on September 30, 2019 funded-status amounts for the OG's portion of the Plan and its postretirement benefit plan, compared to an increase in unrestricted net assets of \$20.5 million in 2018.

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Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

Effective December 31, 2017, Lifespan amended the Lifespan Corporation Retirement Plan (the Plan) whereby certain future participation and benefit accruals under the Plan ceased for employees whose terms and conditions of employment are not covered by a collective bargaining agreement. As of that date, Lifespan remeasured the Plan's assets and benefit obligations. Based on December 31, 2017 funded-status amounts for its portion of the Plan, the OG recorded an increase in net assets without donor restrictions of \$27.7 million in 2018.

Balance Sheet Discussion. Accounts receivable performance declined, with days of net revenue at 42 days as of September 30, 2019 compared to 41 days at June 30, 2019 and 37 days as of September 30, 2018.

Volume Statistics Discussion. For the quarter and year ended September 30, 2019, volume levels were consistent with the same periods in 2018, with the following highlights and exceptions:

For the quarter ended September 30, 2019 compared to the same period in 2018, discharges increased by 637 (4.7%), but patient days were lower by 171 (0.2%), resulting in a decrease in average length of stay to 5.27 days in the 2019 quarter compared to 5.53 days in the 2018 quarter. Observation days were 413 (6.5%) lower in the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018. Inpatient surgeries increased by 274 (7.5%).

In the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018, the OG's emergency department visits and clinic visits increased by 2,718 (4.8%) and 5,920 (6.2%), respectively. The additional clinic visits were attributable to increases in the Comprehensive Spine Center and various pediatric clinic visits as well as the ongoing growth of the Cardiovascular Institute, the LCI, the Women's Medicine Collaborative, and the Men's Health Center.

The OG's other outpatient ancillary volume continued to increase in the quarter ended September 30, 2019 compared to the 2018 quarter, principally within laboratory services and diagnostic imaging procedures. Additionally, the OG's ambulatory surgeries increased by 151 (3.2%).

For the year ended September 30, 2019, discharges increased by 234 (0.4%) and patient days were 2,818 (0.9%) higher, resulting in a slight increase in average length of stay to 5.36 days for the year ended September 30, 2019 compared to 5.33 days for the year ended September 30, 2018. Occupancy rates increased to 90.7% in 2019 from 90.0% in 2018. Observation volume was higher by 1,111 days (4.9%) in the year ended September 30, 2019 compared to the year ended September 30, 2018. The Medicare case mix index increased to 1.744 in 2019 from 1.710 in 2018.

The OG's 2019 emergency department visits increased by 4,150 (1.9%) while clinic visits were higher by 20,020 (5.2%) compared to the year ended September 30, 2018. Clinic visits increased most notably in pediatrics and medical/surgical clinics, the Cardiovascular Institute, the LCI, the Women's Medicine Collaborative, and the Men's Health Center. Ambulatory surgeries declined by 1,029 (5.0%).

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Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

The OG's other outpatient ancillary volume increased in the year ended September 30, 2019 compared to the same period in 2018, primarily reflected in the sustained growth of laboratory services and diagnostic imaging procedures.

The Lifespan Obligated Group provides the information in these reports in accordance with the terms of the Continuing Disclosure Agreement dated August 11, 2016, which grants discretion to the Lifespan Obligated Group to determine the details of the quarterly information that it will provide if it is based upon the unaudited consolidated financial statements of Lifespan Corporation and its Affiliates as well as those of the Lifespan Obligated Group. Accordingly, the Lifespan Obligated Group advises the recipients and users of this information that in the future it may change the level of detail, combine information, and make other changes in the format and scope of quarterly information presented.

LIFESPAN OBLIGATED GROUP

Combined Statements of Financial Position

September 30, 2019 and 2018

(In thousands)

| Assets | 2019 | 2018 | Liabilities and Net Assets | 2019 | 2018 |
|--|---------------------|---------------------|---|---------------------|---------------------|
| Current assets: | | | Current liabilities: | | |
| Cash and cash equivalents | \$ 59,006 | \$ 77,387 | Accounts payable | \$ 100,103 | \$ 72,311 |
| | | | Accrued employee benefits and compensation | 59,844 | 55,383 |
| Net patient accounts receivable | 213,359 | 180,657 | Other accrued expenses | 50,062 | 42,452 |
| Other receivables | 25,636 | 23,307 | Revolving credit loan payable | 20,000 | — |
| Current portion of contributions receivable, net | 4,271 | 2,552 | Current portion of long-term debt | 21,108 | 20,338 |
| | | | Current portion of estimated third-party payor settlements | 7,521 | 8,727 |
| Total receivables | 243,266 | 206,516 | Estimated health care benefit self-insurance costs | 15,926 | 14,286 |
| | | | | | |
| Inventories | 30,045 | 31,661 | Total current liabilities | 274,564 | 213,497 |
| Prepaid expenses and other current assets | 3,907 | 3,631 | | | |
| | | | Long-term debt, net of current portion | 246,739 | 271,349 |
| Total current assets | 336,224 | 319,195 | Estimated third-party payor settlements, net of current portion | 29,138 | 29,138 |
| | | | Accrued pension liability | 203,495 | 154,188 |
| Assets limited as to use | 823,338 | 840,914 | Other liabilities | 9,675 | 10,071 |
| | | | | | |
| Property and equipment, net | 742,855 | 748,624 | Total liabilities | 763,611 | 678,243 |
| | | | | | |
| Other assets: | | | Net assets: | | |
| Contributions receivable, net | 6,795 | 4,738 | Net assets without donor restrictions | 672,235 | 770,527 |
| Other noncurrent assets | 3,413 | 4,349 | Net assets with donor restrictions | 476,779 | 469,050 |
| | | | | | |
| Total other assets | 10,208 | 9,087 | Total net assets | 1,149,014 | 1,239,577 |
| | | | | | |
| Total assets | \$ <u>1,912,625</u> | \$ <u>1,917,820</u> | Total liabilities and net assets | \$ <u>1,912,625</u> | \$ <u>1,917,820</u> |

See accompanying notes to interim combined financial statements (unaudited).

LIFESPAN OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|---|--|-------------------|------------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues and other support without donor restrictions: | | | | |
| Net patient service revenue | \$ 469,955 | \$ 445,727 | \$ 1,834,365 | \$ 1,784,442 |
| Other revenue | 19,959 | 16,703 | 72,755 | 58,357 |
| Endowment earnings contributed toward community benefit | 2,777 | 3,571 | 13,749 | 13,971 |
| Net assets released from restrictions used for operations | 5,402 | 5,504 | 20,411 | 19,656 |
| Net assets released from restrictions used for research | 24,702 | 22,575 | 92,264 | 86,661 |
| | <u>522,795</u> | <u>494,080</u> | <u>2,033,544</u> | <u>1,963,087</u> |
| Total revenues and other support without donor restrictions | | | | |
| Operating expenses: | | | | |
| Compensation and benefits | 260,318 | 252,513 | 1,051,852 | 1,017,097 |
| Supplies and other expenses | 137,494 | 118,444 | 528,629 | 473,866 |
| Purchased services | 76,441 | 77,174 | 285,698 | 262,497 |
| Depreciation and amortization | 20,074 | 19,684 | 79,555 | 77,405 |
| Interest | 1,976 | 2,081 | 8,242 | 8,753 |
| License fees | 24,026 | 22,412 | 96,103 | 89,649 |
| | <u>520,329</u> | <u>492,308</u> | <u>2,050,079</u> | <u>1,929,267</u> |
| Total operating expenses | | | | |
| Income (loss) from operations | <u>2,466</u> | <u>1,772</u> | <u>(16,535)</u> | <u>33,820</u> |
| Nonoperating gains and losses: | | | | |
| Gifts and bequests without donor restrictions | 135 | 63 | 1,946 | 2,156 |
| Income from board-designated investments | 87 | 69 | 254 | 222 |
| Net realized (losses) gains on board-designated investments | (1,055) | 743 | (34) | 1,761 |
| Fundraising expenses | (810) | (829) | (3,377) | (3,345) |
| Other nonoperating gains (losses), net | 6,165 | (3,225) | (3,261) | (13,471) |
| | <u>4,522</u> | <u>(3,179)</u> | <u>(4,472)</u> | <u>(12,677)</u> |
| Total nonoperating gains (losses), net | | | | |
| Excess (deficiency) of revenues over expenses | \$ <u>6,988</u> | \$ <u>(1,407)</u> | \$ <u>(21,007)</u> | \$ <u>21,143</u> |

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LIFESPAN OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets (Continued)

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|---|--|---------------------|------------------------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Changes in net assets without donor restrictions: | | | | |
| Excess (deficiency) of revenues over expenses | \$ 6,988 | \$ (1,407) | \$ (21,007) | \$ 21,143 |
| Other changes in net assets without donor restrictions: | | | | |
| Change in funded status of pension plan, other than net periodic pension cost | (52,556) | 20,479 | (52,556) | 48,210 |
| Net change in unrealized gains on investments available for sale | (3,284) | (5,010) | (10,588) | (671) |
| Transfers to Lifespan Corporation, net | (18,841) | — | (18,841) | — |
| Net assets released from restrictions used for purchase of property and equipment | 1,547 | 1,333 | 4,795 | 4,622 |
| Other (decreases) increases | (70) | 8 | (96) | (29) |
| | <u>(66,216)</u> | <u>15,403</u> | <u>(98,293)</u> | <u>73,275</u> |
| (Decrease) increase in net assets without donor restrictions | | | | |
| Changes in net assets with donor restrictions: | | | | |
| Gifts, grants, and bequests | 32,545 | 29,760 | 116,077 | 104,510 |
| Income from restricted endowment and other restricted investments | 937 | 721 | 2,910 | 2,471 |
| Transfers from affiliates | 623 | 1,125 | 1,301 | 2,243 |
| Net assets released from restrictions | (31,651) | (29,412) | (117,470) | (110,939) |
| Net realized and unrealized gains on investments | 1,317 | 6,528 | 7,505 | 22,961 |
| Fundraising expenses | (328) | (283) | (1,861) | (1,652) |
| Grants to outside agencies | (181) | (183) | (732) | (761) |
| | <u>3,262</u> | <u>8,256</u> | <u>7,730</u> | <u>18,833</u> |
| Increase in net assets with donor restrictions | | | | |
| (Decrease) increase in net assets | (62,954) | 23,659 | (90,563) | 92,108 |
| Net assets, beginning of period | <u>1,211,968</u> | <u>1,215,918</u> | <u>1,239,577</u> | <u>1,147,469</u> |
| Net assets, end of period | <u>\$ 1,149,014</u> | <u>\$ 1,239,577</u> | <u>\$ 1,149,014</u> | <u>\$ 1,239,577</u> |

See accompanying notes to interim combined financial statements (unaudited).

LIFESPAN OBLIGATED GROUP

Combined Statements of Cash Flows

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|---|--|------------------|------------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flows from operating activities: | | | | |
| (Decrease) increase in net assets | \$ (48,604) | \$ 36,238 | \$ (90,563) | \$ 92,108 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: | | | | |
| Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs | 52,556 | (20,479) | 52,556 | (48,210) |
| Net realized and unrealized (gains) losses on investments | (9,871) | (8,345) | 3,117 | (24,051) |
| Transfers to Lifespan Corporation | 18,841 | — | 18,841 | — |
| Depreciation and amortization | 40,122 | 39,170 | 79,555 | 77,405 |
| Provision for estimated health care benefit self-insurance costs | 58,595 | 55,601 | 116,486 | 110,608 |
| Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid | (57,444) | (54,740) | (114,846) | (109,271) |
| Net (increase) decrease in patient accounts receivable | (30,910) | 5,360 | (32,702) | 5,358 |
| Increase in accounts payable | 21,512 | 5,681 | 27,792 | 4,711 |
| Increase in accrued employee benefits and compensation | 1,682 | 6,379 | 4,461 | 5,880 |
| Decrease in estimated third-party payor settlements | (1,966) | (16,743) | (1,206) | (8,717) |
| Decrease in all other current and noncurrent assets and liabilities, net | (26,712) | (34,545) | (22,403) | (26,236) |
| Net cash provided by operating activities | <u>17,801</u> | <u>13,577</u> | <u>41,088</u> | <u>79,585</u> |
| Cash flows from investing activities: | | | | |
| Purchase of property and equipment | (38,941) | (31,391) | (73,590) | (63,327) |
| Purchases of assets limited as to use | (184,345) | (321,809) | (647,123) | (710,160) |
| Proceeds from sales of assets limited as to use | 203,348 | 330,484 | 670,771 | 725,192 |
| Other net decreases (increases) in assets limited as to use | <u>431</u> | <u>(1,975)</u> | <u>(9,189)</u> | <u>(10,140)</u> |
| Net cash used in investing activities | <u>(19,507)</u> | <u>(24,691)</u> | <u>(59,131)</u> | <u>(58,435)</u> |
| Cash flows from financing activities: | | | | |
| Proceeds from (payments on) revolving credit loan payable | 20,000 | (1,000) | 20,000 | (1,000) |
| Payments on long-term debt | <u>(16,622)</u> | <u>(15,947)</u> | <u>(20,338)</u> | <u>(19,602)</u> |
| Net cash provided by (used in) financing activities | <u>3,378</u> | <u>(16,947)</u> | <u>(338)</u> | <u>(20,602)</u> |
| Net (decrease) increase in cash and cash equivalents | 1,672 | (28,061) | (18,381) | 548 |
| Cash and cash equivalents, beginning of period | <u>57,334</u> | <u>105,448</u> | <u>77,387</u> | <u>76,839</u> |
| Cash and cash equivalents, end of period | <u>\$ 59,006</u> | <u>\$ 77,387</u> | <u>\$ 59,006</u> | <u>\$ 77,387</u> |

See accompanying notes to interim combined financial statements (unaudited).

The Lifespan Obligated Group
Notes to Interim Combined Financial Statements (Unaudited)
(In thousands)

Note 1: The interim combined financial information furnished herein is unaudited; however, in the opinion of management, the information reflects all adjustments that are necessary to fairly state the combined financial position of Rhode Island Hospital and Affiliates (RIH), The Miriam Hospital (TMH), Emma Pendleton Bradley Hospital (EPBH) (together “the Hospitals”), and Rhode Island Hospital Foundation (RIHF) and The Miriam Hospital Foundation (TMHF) (together “the Foundations”), the combined results of their operations, and their cash flows for the interim periods indicated on the same basis as the audited financial statements of the Hospitals. All the adjustments are of a normal recurring nature. These interim combined financial statements do not include all the information and footnote disclosures required by generally accepted accounting principles. The combined financial statements include financial information of certain affiliates of RIH, which represent less than one percent (1%) of its consolidated operating revenues and are not part of the Lifespan Obligated Group (the OG).

The OG’s management presumes that users of this interim combined financial information have read or have access to the Hospitals’ audited financial statements for the preceding fiscal year, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Hospitals’ most recent audited financial statements have been omitted.

All significant intercompany accounts and transactions have been eliminated in the combination of the Lifespan Obligated Group financial statements.

Note 2: The composition of assets limited as to use at September 30 is set forth in the following table:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Unrestricted (internally board-designated) | \$ 365,939 | \$ 385,592 |
| Temporarily restricted funds | 305,925 | 303,472 |
| Permanently restricted funds | <u>151,474</u> | <u>151,850</u> |
| Total | <u>\$ 823,338</u> | <u>\$ 840,914</u> |

Assets limited as to use at September 30 are classified as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------|-------------------|-------------------|
| Available-for-sale | \$ 623,850 | \$ 584,851 |
| Trading | <u>199,488</u> | <u>256,063</u> |
| Total | <u>\$ 823,338</u> | <u>\$ 840,914</u> |

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The Lifespan Obligated Group
Notes to Interim Combined Financial Statements, Continued (Unaudited)
(In thousands)

Note 3: The following Accounting Pronouncements have been adopted for the OG's fiscal year beginning October 1, 2018. Certain fiscal year 2018 amounts have been reclassified to conform to the fiscal year 2019 reporting format.

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost*. ASU 2017-07 requires entities to present non-service cost components of net periodic pension cost in a caption below income from operations and provides that only service costs are reported as a part of compensation and benefits within operating expenses. ASU 2017-07 also permits previously disclosed components of net periodic pension cost to be used in estimating the retrospective presentation, as a practical expedient. Non-service pension costs amounting to \$3,100 and \$12,400 are reflected in other nonoperating losses for the quarter and year ended September 30, 2019, respectively. Utilizing the practical expedient based on amounts previously disclosed, the OG reclassified non-service cost components of net periodic pension cost totaling \$3,000 and \$12,000 from compensation and benefits into other nonoperating losses in the unaudited combined statements of operations and changes in net assets for the quarter and year ended September 30, 2018.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires not-for-profit entities to report amounts for *net assets/changes in net assets with donor restrictions* and *net assets/changes in net assets without donor restrictions*, rather than the formerly required three net asset classes.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. As a result, bad debts are included in contractual allowances and deducted from gross charges to arrive at net healthcare revenue.

LIFESPAN OBLIGATED GROUP

Utilization Statistics

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|--|--------------------------------------|--------|----------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| Inpatient Statistics: | | | | |
| Licensed Beds -- Adult | 879 | 879 | 879 | 879 |
| Licensed Beds -- Pediatrics | 157 | 157 | 157 | 157 |
| Total Licensed Beds | 1,036 | 1,036 | 1,036 | 1,036 |
| Beds in Service -- Adult | 838 | 838 | 847 | 842 |
| Beds in Service -- Pediatrics | 157 | 157 | 157 | 157 |
| Total Staffed Beds | 995 | 995 | 1,004 | 999 |
| Discharges: | | | | |
| Adult | 12,844 | 12,280 | 51,306 | 51,095 |
| Pediatrics | 1,351 | 1,278 | 6,241 | 6,218 |
| Total | 14,195 | 13,558 | 57,547 | 57,313 |
| Patient Days: | | | | |
| Adult | 64,584 | 64,103 | 261,614 | 258,740 |
| Pediatrics | 10,258 | 10,910 | 46,882 | 46,938 |
| Total | 74,842 | 75,013 | 308,496 | 305,678 |
| Observation Days: | | | | |
| Adult | 5,314 | 5,773 | 20,825 | 19,821 |
| Pediatrics | 677 | 631 | 2,886 | 2,779 |
| Total | 5,991 | 6,404 | 23,711 | 22,600 |
| Total Inpatient Activity: | | | | |
| Adult | 69,898 | 69,876 | 282,439 | 278,561 |
| Pediatrics | 10,935 | 11,541 | 49,768 | 49,717 |
| Total | 80,833 | 81,417 | 332,207 | 328,278 |
| Average Length of Stay: | | | | |
| Adult | 5.03 | 5.22 | 5.10 | 5.06 |
| Pediatrics | 7.59 | 8.54 | 7.51 | 7.55 |
| Total | 5.27 | 5.53 | 5.36 | 5.33 |
| Percent of Total Occupancy of Beds in Service: | | | | |
| Adult | 90.7% | 90.6% | 91.4% | 90.6% |
| Pediatrics | 75.7% | 79.9% | 86.8% | 86.8% |
| Total | 88.3% | 88.9% | 90.7% | 90.0% |
| Medicare Case Mix Index | 1.671 | 1.677 | 1.744 | 1.710 |
| Inpatient Surgeries | 3,908 | 3,634 | 15,073 | 14,560 |
| Outpatient Statistics: | | | | |
| Emergency Department Visits | 59,416 | 56,698 | 228,690 | 224,540 |
| Clinic Visits | 101,809 | 95,889 | 406,191 | 386,171 |
| Ambulatory Surgeries | 4,850 | 4,699 | 19,596 | 20,625 |

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates

Quarter Ended September 30, 2019 compared to Quarter Ended September 30, 2018.

Deficiency of revenues over expenses was \$5.7 million for the quarter ended September 30, 2019 compared to an excess of revenues over expenses of \$1.1 million for the quarter ended September 30, 2018.

Results of Operations. For the quarter ended September 30, 2019, Lifespan reflected an operating loss of \$0.7 million compared to operating income of \$3.0 million for the quarter ended September 30, 2018.

Net patient service revenue increased by \$30.5 million (6.0%) in the quarter ended September 30, 2019 compared to the same period in 2018. Increases in volume contributed \$18.1 million to net patient service revenue. Rate increases and changes in payor mix resulted in a net increase of \$17.8 million, including a \$6.8 million reduction from lower Medicare rates caused by an adverse change in the formula for the wage index calculation. Total uncompensated care increased by \$4.1 million, while State disproportionate share revenue was higher by \$2.4 million. Prior period third-party adjustments were \$3.7 million lower in the quarter ended September 30, 2019.

Charity care increased \$1.3 million and the provision for bad debts was higher by \$2.8 million in the quarter ended September 30, 2019 compared to the same period in 2018. Charity care amounted to \$27.5 million and \$26.2 million for the quarters ended September 30, 2019 and 2018. As a percentage of Lifespan's gross patient service revenue, total uncompensated care, which includes the provision for bad debts as well as charity care, was 3.1% and 3.0% in the quarters ended September 30, 2019 and 2018, respectively.

Other revenue increased by \$3.5 million (10.1%) in the quarter ended September 30, 2019 due principally to revenue from the Lifespan Retail Pharmacy, which grew by \$4.2 million.

Total operating expenses increased by \$38.8 million (6.7%) in the quarter ended September 30, 2019 compared to the same period in 2018, due primarily to supplies and other expenses, which increased by \$22.3 million (15.7%), and compensation and benefits, which were higher by \$16.2 million (4.8%).

Supplies and other expenses increased by \$22.3 million in the quarter ended September 30, 2019 contrasted with the same period in 2018, most notably within medical/surgical supplies and drugs, which increased by \$18.5 million caused by a combination of general inflation, an increase in inpatient volume, and the continued growth of both the Lifespan Retail Pharmacy and the Lifespan Cancer Institute (LCI).

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates (Continued)

Compensation and benefits increased by \$16.2 million in the quarter ended September 30, 2019 as compared to the same period in 2018. 463 additional full-time equivalents (FTEs) resulted in an increase of \$14.5 million in compensation and benefits. The increase in FTEs in the 2019 quarter is primarily attributable to increased staffing levels at Rhode Island Hospital (RIH) in support of increased volume. The September 2019 quarter in turn reflects higher levels of premium pay and physician fees because of such staffing demands. Compensation also grew due to the fiscal year 2019 salary program, which included a 3.0% across-the-board pay increase for nonunion employees effective October 1, 2018. These factors, along with all other changes in compensation and benefits, resulted in a net increase of \$1.7 million in the quarter ended September 30, 2019 compared to the same period in 2018.

Purchased services decreased by \$1.3 million (3.0%) in the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018. The 2018 quarter included \$7.7 million for alternative staffing during the four-day strike at RIH. This was substantially offset by new outsourced dietary service programs at RIH, The Miriam Hospital (TMH), and Emma Pendleton Bradley Hospital (EPBH), as well as various other purchased services.

License fees increased by \$1.7 million (7.2%) in the quarter ended September 30, 2019 compared to the same period in 2018, which was more than offset by the previously noted increase in State disproportionate share revenue of \$2.4 million.

Nonoperating losses amounted to \$4.9 million for the quarter ended September 30, 2019 compared to nonoperating losses of \$1.9 million for the same period in 2018. The following is a summary comparing nonoperating performance for the quarters ended September 30, 2019 and 2018, respectively:

| | Quarters Ended September 30 | |
|--|------------------------------------|--------------------------|
| | 2019 | 2018 |
| | (In thousands) | |
| Investment income, including gains and losses on board-designated investments | \$ 175 | \$ 2,549 |
| Net unrestricted performance of Foundations | (828) | (686) |
| Other nonoperating losses, net | <u>(4,261)</u> | <u>(3,769)</u> |
| Total nonoperating losses, net | <u><u>(\$ 4,914)</u></u> | <u><u>(\$ 1,906)</u></u> |

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates (Continued)

Year Ended September 30, 2019 compared to Year Ended September 30, 2018.

Deficiency of revenues over expenses was \$34.9 million for the year ended September 30, 2019 compared to an excess of revenues over expenses of \$23.8 million for the year ended September 30, 2018.

Results of Operations. For the year ended September 30, 2019, Lifespan reflected a loss from operations of \$23.0 million compared to operating income of \$30.9 million for the same period in 2018.

Net patient service revenue increased by \$70.3 million (3.5%) in the year ended September 30, 2019 compared to the year ended September 30, 2018. Increases in volume contributed \$83.1 million to net patient service revenue. Changes in payor mix, offset by rate increases, resulted in a net increase of \$1.7 million, including \$25.3 million from lower Medicare rates caused by an adverse change in the formula for the wage index calculation. Total uncompensated care increased by \$17.7 million, while State disproportionate share revenue was higher by \$10.9 million. Prior period third-party adjustments were \$7.7 million lower in the year ended September 30, 2019.

Charity care increased by \$7.2 million and the provision for bad debts was higher by \$10.5 million in the year ended September 30, 2019 compared to the same period in 2018. Charity care amounted to \$100.0 million and \$92.8 million for the year ended September 30, 2019 and 2018, respectively. As a percentage of Lifespan's gross patient service revenue, total uncompensated care, which includes the provision for bad debts as well as charity care, was 2.8% and 2.6% in the year ended September 30, 2019 and 2018, respectively.

Other revenue increased by \$28.3 million (21.9%) in the year ended September 30, 2019 due primarily to revenue from the Lifespan Retail Pharmacy, which grew by \$18.8 million. Additionally, there was growth in investment income from funds available for self-insurance liabilities amounting to \$7.3 million, as well as malpractice premiums earned of \$1.5 million.

Total operating expenses increased by \$158.7 million (7.0%) for the year ended September 30, 2019 compared to the same period in 2018, primarily in compensation and benefits, which increased by \$71.8 million (5.2%), supplies and other expenses, which were higher by \$63.6 million (11.5%), and purchased services, which grew by \$15.0 million (10.4%).

Compensation and benefits increased by \$71.8 million in the year ended September 30, 2019 compared to the year ended September 30, 2018. FTEs grew by 430, which resulted in an increase of approximately \$53.1 million, primarily due to increased volume. The year ended September 30, 2019 also reflects higher levels of premium pay and physician fees because of increased staffing demands. Compensation also increased in the year ended September 30, 2019 due to the fiscal year 2019 salary program, which includes a 3.0% across-the-board pay increase for nonunion employees effective October 1, 2018. These factors, along with all other changes in compensation and benefits, resulted in a net increase of \$18.7 million for the year ended September 30, 2019 compared to the same period in 2018.

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates (Continued)

Supplies and other expenses were \$63.6 million higher in the year ended September 30, 2019 compared to the same period in 2018, mainly within medical/surgical supplies and drugs, which increased by \$54.0 million because of general inflation, an increase in inpatient volume, and the continued growth of both the Lifespan Retail Pharmacy and the LCI. Additionally, malpractice insurance costs were \$6.3 million higher as compared to the same period in 2018, which were partially offset by the increase in premiums earned as discussed above.

Purchased services increased by \$15.0 million in the 2019 period compared to the 2018 period due mainly to new outsourced dietary service programs at RIH, TMH, and EPBH. Additionally, software contracts and software licenses at Lifespan Corporate Services were \$3.6 million higher as compared to the same period in 2018.

License fees increased by \$6.9 million (7.2%) in the year ended September 30, 2019 compared to the same period in 2018, which was more than offset by the previously noted increase in State disproportionate share revenue of \$10.9 million.

Nonoperating losses amounted to \$11.9 million for the year ended September 30, 2019 compared to nonoperating losses of \$7.1 million for the year ended September 30, 2018. Included in net nonoperating losses in 2019 were non-service pension costs of \$16.0 million, compared to non-service pension costs of \$13.0 million in the year ended September 30, 2018, an increase in costs of \$3.0 million.

Changes in Net Assets. Total net assets of Lifespan decreased by \$103.0 million in the year ended September 30, 2019 compared to an increase of \$117.2 million for the year ended September 30, 2018.

The decline in operating performance resulted in a decrease in net assets of \$53.9 million.

Net realized and unrealized losses in the year ended September 30, 2019 totaled \$4.0 million, compared with net realized and unrealized gains of \$34.0 million for the year ended September 30, 2018, a decrease in investment performance of \$38.0 million. The investment portfolio returned a gain of 2.9% in the year ended September 30, 2019 compared to a gain of 5.7% in the year ended September 30, 2018.

Changes in net assets in the year ended September 30, 2019 include a decrease in unrestricted net assets of \$66.4 million based on September 30, 2019 funded-status amounts for the Lifespan Corporation Retirement Plan (the Plan) and Lifespan's postretirement benefit plan, compared to an increase in unrestricted net assets of \$23.9 million in 2018.

Effective December 31, 2017, Lifespan amended the Plan whereby certain future participation and benefit accruals under the Plan ceased for employees whose terms and conditions of employment are not covered by a collective bargaining agreement. As of that date, Lifespan remeasured the Plan's assets and benefit obligations. Based on December 31, 2017 funded-status amounts for the Plan, Lifespan recorded an increase in net assets without donor restrictions of \$37.8 million.

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates (Continued)

Balance Sheet Discussion. Accounts receivable performance declined, with days of net revenue at 41 days as of September 30, 2019 compared to 40 days at June 30, 2019 and 36 days at September 30, 2018.

Volume Statistics Discussion. For the quarter and year ended September 30, 2019, volume levels were consistent with the same periods in 2018, with the following highlights and exceptions:

For the quarter ended September 30, 2019 compared to the same period in 2018, discharges increased by 647 (4.4%) while patient days decreased by 308 (0.4%), resulting in a decrease in average length of stay to 5.22 days in the 2019 quarter from 5.47 days in the 2018 quarter. Occupancy rates decreased to 86.4% from 87.1%. Observation days were 466 (6.7%) lower in the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018.

In the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018, Lifespan's clinic visits increased by 14,388 (8.8%) primarily due to growth within Lifespan Physician Group (LPG). Emergency department visits increased by 2,572 (3.9%), while ambulatory surgeries increased by 74 (1.3%).

For the year ended September 30, 2019, discharges increased by 326 (0.5%) while patient days increased by 1,911 (0.6%), resulting in a constant average length of stay of 5.30 days in the years ended September 30, 2019 and 2018. Occupancy rates increased to 88.5% in the 2019 period from 88.1% for the same period in 2018. Observation volume was higher by 1,301 (5.4%).

Lifespan's 2019 clinic visits increased by 58,772 (9.0%) compared to the year ended in 2018 mainly within LPG, as noted above. Emergency department visits increased by 3,623 (1.4%), while ambulatory surgeries decreased by 1,076 (4.2%) in the year ended September 30, 2019 compared to the same period in 2018.

The Lifespan Obligated Group provides the information in these reports in accordance with the terms of the Continuing Disclosure Agreement dated August 11, 2016, which grants discretion to the Lifespan Obligated Group to determine the details of the quarterly information that it will provide if it is based upon the unaudited consolidated financial statements of Lifespan Corporation and its Affiliates as well as those of the Lifespan Obligated Group. Accordingly, the Lifespan Obligated Group advises the recipients and users of this information that in the future it may change the level of detail, combine information, and make other changes in the format and scope of quarterly information presented.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2019 and 2018

(In thousands)

| Assets | 2019 | 2018 | Liabilities and Net Assets | 2019 | 2018 |
|--|--------------|--------------|---|--------------|--------------|
| Current assets: | | | Current liabilities: | | |
| Cash and cash equivalents | \$ 118,675 | \$ 115,472 | Accounts payable | \$ 134,138 | \$ 93,413 |
| Net patient accounts receivable | 238,369 | 203,299 | Accrued employee benefits and compensation | 102,223 | 93,544 |
| Other receivables | 29,219 | 26,724 | Other accrued expenses | 10,420 | 10,209 |
| Current portion of contributions receivable, net | 5,930 | 4,403 | Revolving credit loan payable | 20,000 | — |
| Total receivables | 273,518 | 234,426 | Current portion of long-term debt | 22,506 | 21,700 |
| Assets limited as to use | 46,614 | 52,139 | Current portion of estimated third-party payor settlements | 8,154 | 8,727 |
| Inventories | 32,657 | 33,939 | Current portion of estimated malpractice and other self-insurance costs | 66,426 | 69,268 |
| Prepaid expenses and other current assets | 15,865 | 16,081 | Total current liabilities | 363,867 | 296,861 |
| Total current assets | 487,329 | 452,057 | Long-term debt, net of current portion | 262,484 | 288,492 |
| Assets limited as to use | 1,197,002 | 1,231,821 | Estimated third-party payor settlements, net of current portion | 29,993 | 29,993 |
| Less amount required to meet current obligations | (46,614) | (52,139) | Estimated malpractice self-insurance costs, net of current portion | 101,993 | 92,115 |
| Noncurrent assets limited as to use | 1,150,388 | 1,179,682 | Accrued pension liability | 250,273 | 188,523 |
| Property and equipment, net | 840,518 | 837,444 | Other liabilities | 57,415 | 53,869 |
| Other assets: | | | Total liabilities | 1,066,025 | 949,853 |
| Contributions receivable, net | 8,747 | 6,602 | Net assets: | | |
| Other noncurrent assets | 31,226 | 29,277 | Net assets without donor restrictions | 887,667 | 993,372 |
| Total other assets | 39,973 | 35,879 | Net assets with donor restrictions | 564,516 | 561,837 |
| Total assets | \$ 2,518,208 | \$ 2,505,062 | Total net assets | 1,452,183 | 1,555,209 |
| | | | Total liabilities and net assets | \$ 2,518,208 | \$ 2,505,062 |

See accompanying notes to interim consolidated financial statements (unaudited).

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|---|--|-------------|------------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues and other support without donor restrictions: | | | | |
| Net patient service revenue | \$ 540,908 | \$ 510,443 | \$ 2,108,216 | \$ 2,037,907 |
| Other revenue | 38,300 | 34,785 | 157,387 | 129,081 |
| Endowment earnings contributed toward community benefit | 3,025 | 3,819 | 14,747 | 14,969 |
| Net assets released from restrictions used for operations | 5,883 | 6,124 | 22,548 | 21,773 |
| Net assets released from restrictions used for research | 24,702 | 22,575 | 92,264 | 86,661 |
| Total revenues and other support without donor restrictions | 612,818 | 577,746 | 2,395,162 | 2,290,391 |
| Operating expenses: | | | | |
| Compensation and benefits | 356,169 | 340,008 | 1,443,706 | 1,371,884 |
| Supplies and other expenses | 163,803 | 141,522 | 614,464 | 550,884 |
| Purchased services | 43,456 | 44,777 | 159,535 | 144,526 |
| Depreciation and amortization | 22,476 | 21,994 | 89,494 | 87,099 |
| Interest | 2,134 | 2,661 | 8,879 | 9,863 |
| License fees | 25,525 | 23,807 | 102,100 | 95,229 |
| Total operating expenses | 613,563 | 574,769 | 2,418,178 | 2,259,485 |
| (Loss) income from operations | (745) | 2,977 | (23,016) | 30,906 |
| Nonoperating gains and losses: | | | | |
| Gifts and bequests without donor restrictions | 656 | 502 | 3,280 | 3,647 |
| Income from board-designated investments | 795 | 588 | 2,742 | 2,385 |
| Net realized (losses) gains on board-designated investments | (620) | 1,961 | 3,923 | 6,608 |
| Grants to outside agencies | - | (33) | - | (33) |
| Fundraising expenses | (1,484) | (1,155) | (5,203) | (4,800) |
| Other nonoperating losses, net | (4,261) | (3,769) | (16,664) | (14,912) |
| Total nonoperating losses, net | (4,914) | (1,906) | (11,922) | (7,105) |
| (Deficiency) excess of revenues over expenses | \$ (5,659) | \$ 1,071 | \$ (34,938) | \$ 23,801 |

(Continued)

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets (Continued)

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|--|--|--------------|------------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Changes in net assets without donor restrictions: | | | | |
| (Deficiency) excess of revenues over expenses | \$ (5,659) | \$ 1,071 | \$ (34,938) | \$ 23,801 |
| Other changes in net assets without donor restrictions: | | | | |
| Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs | (66,412) | 23,901 | (66,412) | 61,711 |
| Net change in unrealized gains on investments available-for-sale | (4,436) | (6,300) | (16,524) | 759 |
| Net assets released from restrictions used for purchase of property and equipment | 2,802 | 4,399 | 12,169 | 8,114 |
| (Decrease) increase in net assets without donor restrictions | (73,705) | 23,070 | (105,705) | 94,384 |
| Changes in net assets with donor restrictions: | | | | |
| Gifts, grants, and bequests | 33,564 | 31,629 | 120,543 | 112,307 |
| Income from restricted endowment and other restricted investments | 1,143 | 897 | 3,569 | 3,065 |
| Net assets released from restrictions | (33,388) | (33,098) | (126,982) | (116,548) |
| Net realized and unrealized gains on investments | 1,356 | 7,003 | 8,610 | 26,656 |
| Fundraising expenses | (341) | (284) | (1,888) | (1,659) |
| Grants to outside agencies | (202) | (205) | (1,131) | (854) |
| Other decreases | (22) | (84) | (42) | (142) |
| Increase in net assets with donor restrictions | 2,110 | 5,858 | 2,679 | 22,825 |
| (Decrease) increase in net assets | (71,595) | 28,928 | (103,026) | 117,209 |
| Net assets, beginning of period | 1,523,778 | 1,526,281 | 1,555,209 | 1,438,000 |
| Net assets, end of period | \$ 1,452,183 | \$ 1,555,209 | \$ 1,452,183 | \$ 1,555,209 |

See accompanying notes to interim consolidated financial statements (unaudited).

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|---|--|-------------------|------------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flows from operating activities: | | | | |
| (Decrease) increase in net assets | \$ (71,595) | \$ 28,928 | \$ (103,026) | \$ 117,209 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: | | | | |
| Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs | 66,412 | (23,901) | 66,412 | (61,711) |
| Net realized and unrealized losses (gains) on investments | 3,700 | (2,663) | 3,991 | (34,022) |
| Depreciation and amortization | 22,476 | 21,994 | 89,494 | 87,099 |
| Provision for estimated self-insurance costs | 54,220 | 55,580 | 207,405 | 201,260 |
| Decrease in liabilities for estimated self-insurance costs resulting from claims paid | (42,021) | (43,412) | (200,369) | (184,527) |
| Net (increase) decrease in patient accounts receivable | (10,143) | 9,511 | (35,070) | 3,678 |
| Increase in accounts payable | 27,771 | 7,578 | 40,725 | 3,764 |
| Increase in accrued employee benefits and compensation | 12,512 | 18,894 | 8,679 | 8,127 |
| Decrease in estimated third-party payor settlements | (7,457) | (14,789) | (573) | (9,807) |
| Decrease in all other current and noncurrent assets and liabilities, net | (23,784) | (44,560) | (11,040) | (39,437) |
| Net cash provided by operating activities | <u>32,091</u> | <u>13,160</u> | <u>66,628</u> | <u>91,633</u> |
| Cash flows from investing activities: | | | | |
| Purchase of property and equipment | (27,626) | (24,036) | (92,568) | (75,176) |
| Purchases of assets limited as to use | (278,139) | (216,638) | (1,122,442) | (1,085,447) |
| Proceeds from sales of assets limited as to use | 300,997 | 216,997 | 1,150,412 | 1,093,052 |
| Other net (increases) decreases in assets limited as to use | (4,309) | 7,124 | 2,858 | 4,310 |
| Net cash used in investing activities | <u>(9,077)</u> | <u>(16,553)</u> | <u>(61,740)</u> | <u>(63,261)</u> |
| Cash flows from financing activities: | | | | |
| Proceeds from (payments on) revolving credit loan payable | — | — | 20,000 | (1,000) |
| Payments on long-term debt | (1,260) | (1,263) | (21,685) | (20,989) |
| Net cash used in financing activities | <u>(1,260)</u> | <u>(1,263)</u> | <u>(1,685)</u> | <u>(21,989)</u> |
| Net increase (decrease) in cash and cash equivalents | 21,754 | (4,656) | 3,203 | 6,383 |
| Cash and cash equivalents at: | | | | |
| Beginning of period | <u>96,921</u> | <u>120,128</u> | <u>115,472</u> | <u>109,089</u> |
| End of period | <u>\$ 118,675</u> | <u>\$ 115,472</u> | <u>\$ 118,675</u> | <u>\$ 115,472</u> |

See accompanying notes to interim consolidated financial statements (unaudited).

LIFESPAN CORPORATION AND AFFILIATES

Detail of Operating Income

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|---------------------------------|--------------------------------------|-----------------|----------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Lifespan Corporation | \$ 336 | \$ 5,258 | \$ 8,470 | \$ 10,871 |
| Rhode Island Hospital | (382) | 1,276 | (31,995) | 13,986 |
| The Miriam Hospital | 3,901 | 1,178 | 13,082 | 17,764 |
| Emma Pendleton Bradley Hospital | (1,053) | (681) | 2,378 | 2,070 |
| Newport Health Care Corporation | (1,568) | (1,845) | (9,502) | (8,458) |
| Gateway Healthcare | (1,719) | (2,149) | (5,116) | (5,423) |
| Lifespan Home Medical | (363) | (118) | (710) | (143) |
| Lifespan MSO | 56 | 52 | 223 | 210 |
| Lifespan Physician Group | 50 | 16 | 168 | 69 |
| Lifespan School Solutions | (3) | (10) | (14) | (40) |
| Hospital Properties | - | - | - | - |
| Total Operating (Loss) Income | \$ <u>(745)</u> | \$ <u>2,977</u> | \$ <u>(23,016)</u> | \$ <u>30,906</u> |

LIFESPAN CORPORATION AND AFFILIATES

Detail of Net Income

(In thousands)

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|---------------------------------|--------------------------------------|-----------------|----------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Lifespan Corporation | \$ (9,151) | \$ 5,183 | \$ (932) | \$ 10,804 |
| Rhode Island Hospital | (4,174) | (1,641) | (44,806) | 1,477 |
| The Miriam Hospital | 12,816 | 1,377 | 22,766 | 18,461 |
| Emma Pendleton Bradley Hospital | (1,213) | (788) | 1,925 | 1,641 |
| Newport Health Care Corporation | (1,404) | (370) | (7,200) | (2,803) |
| Gateway Healthcare | (1,733) | (2,153) | (5,360) | (5,441) |
| Lifespan Home Medical | (366) | (121) | (719) | (152) |
| Lifespan MSO | 57 | 4 | 148 | 67 |
| Foundations | (491) | (420) | (760) | (253) |
| Lifespan Physician Group | - | - | - | - |
| Lifespan School Solutions | - | - | - | - |
| Hospital Properties | - | - | - | - |
| Total Net (Loss) Income | \$ <u>(5,659)</u> | \$ <u>1,071</u> | \$ <u>(34,938)</u> | \$ <u>23,801</u> |

Lifespan Corporation and Affiliates
Notes to Interim Consolidated Financial Statements
(Unaudited) (In thousands)

Note 1: The interim consolidated financial information furnished herein is unaudited; however, in the opinion of management, the information reflects all adjustments that are necessary to fairly state the consolidated financial position of Lifespan Corporation and Affiliates (Lifespan), the results of their operations, and their cash flows for the interim periods indicated on the same basis as Lifespan's audited consolidated financial statements. All the adjustments are of a normal recurring nature. These interim consolidated financial statements do not include all the information and footnote disclosures required by generally accepted accounting principles.

Lifespan presumes that users of this interim consolidated financial information have read or have access to Lifespan's audited consolidated financial statements for the preceding fiscal year, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in Lifespan's most recent audited consolidated financial statements have been omitted.

Note 2: The composition of assets limited as to use at September 30 is set forth in the following table:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Funds available for self-insurance liabilities | \$ 159,472 | \$ 162,508 |
| Unrestricted (internally board-designated) | 496,130 | 525,331 |
| Temporarily restricted funds | 375,741 | 377,999 |
| Permanently restricted funds | <u>165,659</u> | <u>165,983</u> |
| Total | 1,197,002 | 1,231,821 |
| Less amount required to meet current obligations | <u>(46,614)</u> | <u>(52,139)</u> |
| Noncurrent assets limited as to use | <u>\$ 1,150,388</u> | <u>\$ 1,179,682</u> |

(Continued)

Lifespan Corporation and Affiliates (cont'd)
Notes to Interim Consolidated Financial Statements (Unaudited)
(In thousands)

Note 2

(Continued): Assets limited as to use at September 30 are classified as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------|---------------------|---------------------|
| Available-for-sale | \$ 819,404 | \$ 776,149 |
| Trading | <u>377,598</u> | <u>455,672</u> |
| Total | <u>\$ 1,197,002</u> | <u>\$ 1,231,821</u> |

Note 3: The following table sets forth the Plan's funded status recognized in the interim consolidated statements of financial position at September 30, 2019 and 2018, respectively, pursuant to ASC Topic 715 (as opposed to ERISA):

| | <u>2019</u> | <u>2018</u> |
|------------------------------|---------------------|---------------------|
| Projected benefit obligation | \$ 750,203 | \$ 684,668 |
| Plan assets at fair value | <u>499,930</u> | <u>496,145</u> |
| Funded status | <u>\$ (250,273)</u> | <u>\$ (188,523)</u> |

The provisions of FASB Accounting Standards Codification (ASC) Topic 715, *Compensation-Retirement Benefits: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, require an employer to recognize in its statement of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the projected benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2019 funded-status amounts for its pension and postretirement benefit plans, Lifespan recorded a decrease in unrestricted net assets of \$66,412 in 2019.

Note 4: The following Accounting Pronouncements have been adopted for Lifespan's fiscal year beginning October 1, 2018. Certain fiscal year 2018 amounts have been reclassified to conform to the fiscal year 2019 reporting format.

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost*. ASU 2017-07 requires entities to present non-service cost components of net periodic pension cost in a caption below income from operations and provides that only service costs are reported as a part of compensation and benefits within operating expenses. ASU 2017-07 also permits previously disclosed components of net periodic pension cost to be used in estimating the retrospective presentation, as a practical expedient. Non-service pension costs amounting to \$4,011 and \$16,043 are reflected in other nonoperating losses for the quarter and year ended September 30, 2019, respectively. Utilizing the practical expedient based on amounts previously disclosed, Lifespan reclassified non-service cost components of net periodic pension cost totaling \$3,247 and \$12,990 from compensation and benefits into other nonoperating losses in the unaudited consolidated statements of operations and changes in net assets for the quarter and year ended September 30, 2018.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires not-for-profit entities to report amounts for *net assets/changes in net assets with donor restrictions* and *net assets/changes in net assets without donor restrictions*, rather than the formerly required three net asset classes.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. As a result, bad debts are included in contractual allowances and deducted from gross charges to arrive at net healthcare revenue.

**Lifespan Corporation and Affiliates
Consolidated Utilization Statistics**

| | Fourth Quarter Ended September 30 | | Year Ended September 30 | |
|--|--|-------------|------------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Inpatient Statistics: | | | | |
| Licensed Beds -- Adult | 1,008 | 1,008 | 1,008 | 1,008 |
| Licensed Beds -- Pediatrics | 157 | 157 | 157 | 157 |
| Total Licensed Beds | 1,165 | 1,165 | 1,165 | 1,165 |
| Beds in Service -- Adult | 942 | 942 | 951 | 946 |
| Beds in Service -- Pediatrics | 157 | 157 | 157 | 157 |
| Total Staffed Beds | 1,099 | 1,099 | 1,108 | 1,103 |
| Discharges: | | | | |
| Adult | 14,123 | 13,549 | 56,453 | 56,150 |
| Pediatrics | 1,351 | 1,278 | 6,241 | 6,218 |
| Total | 15,474 | 14,827 | 62,694 | 62,368 |
| Patient Days: | | | | |
| Adult | 70,530 | 70,186 | 285,438 | 283,471 |
| Pediatrics | 10,258 | 10,910 | 46,882 | 46,938 |
| Total | 80,788 | 81,096 | 332,320 | 330,409 |
| Observation Days: | | | | |
| Adult | 5,842 | 6,354 | 22,726 | 21,532 |
| Pediatrics | 677 | 631 | 2,886 | 2,779 |
| Total | 6,519 | 6,985 | 25,612 | 24,311 |
| Total Inpatient Activity: | | | | |
| Adult | 76,372 | 76,540 | 308,164 | 305,003 |
| Pediatrics | 10,935 | 11,541 | 49,768 | 49,717 |
| Total | 87,307 | 88,081 | 357,932 | 354,720 |
| Average Length of Stay: | | | | |
| Adult | 4.99 | 5.18 | 5.06 | 5.05 |
| Pediatrics | 7.59 | 8.54 | 7.51 | 7.55 |
| Total | 5.22 | 5.47 | 5.30 | 5.30 |
| Percent of Total Occupancy of Beds in Service: | | | | |
| Adult | 88.1% | 88.3% | 88.8% | 88.3% |
| Pediatrics | 75.7% | 79.9% | 86.8% | 86.8% |
| Total | 86.4% | 87.1% | 88.5% | 88.1% |
| Medicare Case Mix Index | 1.646 | 1.647 | 1.710 | 1.682 |
| Inpatient Surgeries | 4,194 | 3,877 | 16,199 | 15,750 |
| Outpatient Statistics: | | | | |
| Emergency Room Visits | 68,339 | 65,767 | 260,904 | 257,281 |
| Clinic Visits | 177,549 | 163,161 | 709,909 | 651,137 |
| Ambulatory Surgeries | 5,977 | 5,903 | 24,382 | 25,458 |